



October 21, 2022

Jevon Gibb  
Salt Lake County Redevelopment Agency  
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The National Development Council (“NDC”) has been retained by Salt Lake County Redevelopment Agency to conduct a gap analysis of the Magna Apartment Project as a potential recipient of Tax Increment Financing. Lake Union Partners, the developer, requested Tax Increment Financing from the Magna Arbor Park URA to support the construction of a multifamily for-rent apartment development at approximately 3600 S. 8400 West in Magna, UT.

### **Executive Summary**

1. The \$60M Magna Apartment Project is a 192-unit market rate development seeking at least \$4.8M of TIF funding to close financing gaps driven by escalating construction and financing costs.
2. Lake Union Partners provided an initial project plan in August 2022 and are currently providing updated information to reflect the changing interest rate and construction cost environment.
3. The proposal includes land and construction costs that reflect the residential development, but also includes the cost of the purchase and minimum development of a retail and restaurant pad. There is no retail operating proforma, so the retail component will be excluded from the TIF analysis.
4. The proposed rents were compared to other properties based on proximity, age, size, and structure.
5. The Development Budget, Sources and Use, and proforma were adjusted to reflect current conditions.
6. Debt capacity support and, potentially, project performance support are the factors driving the need for TIF funding.
7. The debt capacity support issue is not unique to this project and decision-makers should consider whether to provide support to this particular developer when all others will experience similar issues.

## Comparison of Initial and Updated Development Costs

Lake Union Partners proposed an initial and updated Development Budget for the Magna Apartment Project of approximately \$60M. Changes in financing conditions through October 2022 have diminished the maximum loan amount available to the development company. The current estimate is a maximum loan amount of approximately \$32 million.

	August Submission	September Submission	October Submission	August Greater/ (Less) than October
<b>Use of Funds</b>				
Land Value	\$6,025,000	\$6,025,000	\$5,525,000	\$500,000
Hard Cost	\$45,492,500	\$45,125,000	\$44,757,500	\$735,000
Tenant Improvements	\$0	\$0	\$0	\$0
Soft Cost/Closing Costs	\$6,251,400	\$6,259,830	\$6,259,830	(\$8,430)
Financing Costs	\$1,933,027	\$2,224,077	\$2,218,389	(\$285,362)
<b>TOTAL USES</b>	<b>\$59,701,928</b>	<b>\$59,633,907</b>	<b>\$58,760,720</b>	<b>\$941,208</b>

<b>Sources of Funds</b>				
Senior Debt	\$37,000,000	\$37,000,000	\$32,000,000	\$5,000,000
Arbor Park CDA	\$4,800,000	\$4,800,000	\$4,800,000	\$0
Equity	\$17,901,928	\$17,833,907	\$21,960,720	(\$4,058,792)
<b>TOTAL SOURCES</b>	<b>\$59,701,928</b>	<b>\$59,633,907</b>	<b>\$58,760,720</b>	<b>\$941,208</b>

The current hard cost estimate of \$210+ PSF (including Architect and FF&E) is consistent with estimates from the RS Means estimate of \$213.60. (Figure 1). RS Means uses Salt Lake City rates, so it is expected to be slightly higher than the Magna estimate. The construction costs are based on Wasatch Builders Construction estimates and construction bid schematics.

## Project Return

While the early and updated Development Budgets were similar, the internal rate of return (IRR) of the project changed significantly with updated financing conditions. In an initial submission from August 2022, the IRR was projected to be 15.8%; in the October submission the IRR was 13.14%. IRRs in the 12-14% range are reasonable, and the October submission is still within this range. Based on an analysis of the annual cash flow provided by the developer, the drivers of the reduction in IRR were (1) \$2.6 million less NOI earned over a 10-year period, and (2) a reduction of \$479K in anticipated operating cash flow and \$10 million in transaction/financing cash flow. The decrease in transactional cash flow was driven by a \$6 million reduction in debt capacity. (see Figure 2). The rapid rise of interest rates is changing the amount of debt available to the developer, meaning that the project will require

additional equity to reach a reasonable IRR range.

### Market & Operating Proforma Summary

The applicant has not requested a market study at this time. NDC recommends that projects receive conditional financial support pending the submittal of an independent third-party market study to validate the project specific assumptions provided by the developer. In lieu of the market study, Lake Union Partners requested and provided “comps” from the property management partner, Greystar. In addition, NDC independently collected rents and data from Moody’s Analytics (REIS). The unit mix and rent rates for the Magna Apartments are as follows:

#### Unit Mix

Unit Type	# Units	% Units	Size (sf)	Rent	Rent PSF
1 Bedroom	96	50%	756	\$1,425	\$1.88
2 Bedroom	64	33%	913	\$1,590	\$1.74
3 Bedroom	32	17%	1,194	\$2,030	\$1.70
<b>Total</b>	<b>192</b>				

The Magna Apartment rents are focused on the 70%-80% AMI segment based on Novogradac Rent and Limits Calculator. (Figure 3)

#### Median Rents

Comparable median rents rates were calculated with inputs provided by Greystar and Moody’s Analytics. The properties were chosen based on proximity to Magna, their structure, age, amenities, and number of units. The four properties included in the comparison were Elk Run Apartments (Magna), Oquirrh Hills Apartments (Magna), Pinnacle Apartments (West Valley City) and ICO Fairbourne (West Valley City).

	Magna Apt Magna	Elk Run Magna	Oquirrh Hills Magna	Pinnacle Apt WVC	ICO Fairbourne WVC
Year Built	-	2000	2016	2015	2014
# Units	192	172	288	290	225
Avg SF/unit	881	-	-	986	893

The rent rate by apartment type and median rents are as follows:

Unit Type	Magna Apt Magna	Elk Run Magna	Oquirrh Hills Magna	Pinnacle Apt WVC	ICO Fairbourne WVC	Median Rents
1 Bedroom	\$1.88	\$1.93	\$1.80	\$2.24	\$1.96	\$1.94
2 Bedroom	\$1.74	\$1.60	\$1.66	\$1.82	\$1.81	\$1.73
3 Bedroom	\$1.70	\$1.44	\$1.70	\$1.71	\$1.70	\$1.70

The median rent rates in the operating proforma for the Magna 1BR are lower than the median rent rates of the comparable properties. The 2BR and 3BR rents are consistent with the median rent rates. For this analysis, we adjusted the monthly rent to reflect the median 1BR.

### Adjusted Development Budget (Residential Development & Interest Rate Impact)

The previous development budget contained costs for the purchase and basic development of retail pads. The October development budget reflects only costs associated with the residential redevelopment and the impact that the current interest rates have on debt capacity. The TIF funding evaluation should be based on a \$58.8M Development Budget.

	August Submission	September Submission	October Submission	August (Less) than October
<b>Use of Funds</b>				
Land Value	\$6,025,000	\$6,025,000	\$5,525,000	\$500,000
Hard Cost	\$45,492,500	\$45,125,000	\$44,757,500	\$735,000
Tenant Improvements	\$0	\$0	\$0	\$0
Soft Cost/Closing Costs	\$6,251,400	\$6,259,830	\$6,259,830	(\$8,430)
Financing Costs	\$1,933,027	\$2,224,077	\$2,218,389	(\$285,362)
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<b>Sources of Funds</b>				
Senior Debt	\$37,000,000	\$37,000,000	\$32,000,000	\$5,000,000
Arbor Park CDA	\$4,800,000	\$4,800,000	\$4,800,000	\$0
Equity	\$17,901,928	\$17,833,907	\$21,960,720	(\$4,058,792)
<b>TOTAL SOURCES</b>	<b>\$59,701,928</b>	<b>\$59,633,907</b>	<b>\$58,760,720</b>	<b>\$941,208</b>

The use of funds were reduced in two areas because the following expenses would be factored into any future retail transaction on the pads, which was not evaluated in this analysis:

- 1) The land value was reduced because it included a \$500,000 option that the developer exercised to purchase the retail pads.
- 2) The hard cost included \$350,000 for basic work on the retail pads. The reduced hard cost generates an additional \$17,500 decrease in contingency costs.

The sources of funds have been reduced due to the impact of the interest rate rising to 6.41%. (Figure 4)

This increased interest rate has reduced the debt capacity to roughly \$32,000,000. Based on the current deal structure, this will require an additional equity contribution.

### Adjustment by the underwriter

The following adjustments were made to reflect current conditions:

- 1) Increased the rental rate of the 1BR to \$1.94/SF (Median). The 2BR & 3BR rent rates remain unchanged.
- 2) Increased the interest rate to 6.41%, which reduces debt capacity to \$32,000,000.
- 3) Omit development and land costs specific to the future retail development.

*Note: The submission includes a presumptive \$4.8M in TIF funding*

With the above adjustments the resulting Deal Level IRR is 13.14%.

### Potential RDA Funding Levels and IRR impact

The RDA's level of support is dependent on what it determines to be reasonable project performance. The following contribution levels and IRR are based on the above adjusted project return assumptions.

<u>RDA Contribution</u>	<u>IRR</u>
\$0	11.3%
\$1,830,000	12%
\$3,140,000	12.5%
\$4,450,000	13.0%
\$4,800,000	13.14%*
\$5,900,000	13.5%**

*\*Current RDA Contribution request from the developers*

*\*\*IRR in developer's September submission*

### Conclusions & Recommendations

#### Conclusions

- 1) The main risk to the viability of the Magna Apartment Project is the continued erosion of debt capacity.
- 2) Construction costs have been rising, and inflationary pressures will exacerbate this.
- 3) The debt capacity issues, rising construction costs and inflationary pressures are not unique to this project and decision-makers should consider whether to provide support to this particular developer when all others will experience similar issues.

- 4) The following are needed to make a sound TIF award decision
- a. Letter of Commitment for Senior Debt
  - b. Letter of Commitment for Equity, including waterfall/payout plan
  - c. Evaluation of the Conversion Terms and integration into proforma
  - d. Understand Plan for the Retail Pads and the impact on the proforma

Best Regards,



Carl Spikner  
Assistant Director  
National Development Council

## Exhibits

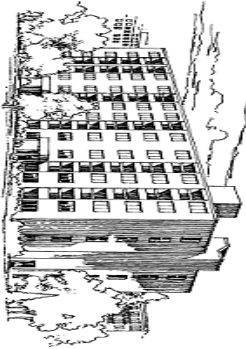
Figure 1

### Square Foot Estimator

Model: Apartment, 4-7 Story with Brick Veneer / Rigid Steel

Calculate Building Cost   Quick View   Save Estimate   Customize/View Report   Clear All

Default Building Image



<b>Building Cost</b>	<b>\$2,735,511.87</b>	<b>Location</b>	SALT LAKE CITY, UT	<b>Stories (Est.)</b>	4
Cost per SF	\$213.83	Floor Area	12,805	Story Height	14.00

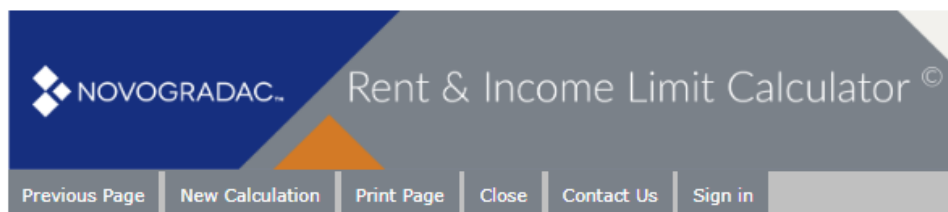


	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029	7/1/2030	7/1/2031
Original Proforma										
EGI	\$0	\$29,759	\$3,731,086	\$4,578,252	\$4,711,826	\$4,849,313	\$4,990,827	\$5,136,488	\$5,286,418	\$5,440,741
OpEx	\$0	\$98,597	\$1,292,322	\$1,346,388	\$1,381,631	\$1,417,803	\$1,454,927	\$1,493,031	\$1,532,138	\$1,572,277
NOI	\$0	(\$68,838)	\$2,438,764	\$3,231,864	\$3,330,195	\$3,431,510	\$3,535,900	\$3,643,458	\$3,754,279	\$3,868,463
<b>Project Cost</b>	\$26,516,793	\$32,829,665	\$277,597	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash Flow from Operations	\$0	\$0	\$658,254	\$1,002,894	\$1,099,892	\$1,199,831	\$1,302,807	\$1,408,907	\$1,518,228	\$1,630,872
Cash Flow From Transactions	\$0	\$0	\$6,102,422	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$733,333	\$30,572,607
Net Cash Flow	\$0	\$0	\$6,760,676	\$1,802,894	\$1,899,892	\$1,999,831	\$2,102,807	\$2,208,907	\$2,251,561	\$32,203,479
10.20.22 No Mezz										
EGI	\$0	\$0	\$576,913	\$4,486,257	\$4,773,110	\$4,912,436	\$5,055,844	\$5,203,455	\$5,355,393	\$5,511,786
OpEx	\$0	\$0	\$444,246	\$1,430,843	\$1,472,911	\$1,511,821	\$1,551,766	\$1,592,774	\$1,634,874	\$1,678,095
NOI	\$0	\$0	\$132,668	\$3,055,414	\$3,300,200	\$3,400,615	\$3,504,078	\$3,610,681	\$3,720,519	\$3,833,691
<b>Project Cost</b>	\$8,077,114	\$18,844,659	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash Flow from Operations	\$0	\$0	\$0	\$1,008,187	\$1,271,395	\$1,370,417	\$1,472,446	\$1,577,573	\$1,688,473	\$1,203,695
Cash Flow From Transactions	\$0	\$0	\$66,667	\$9,937,939	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000	\$38,065,666
Net Cash Flow	\$0	\$0	\$66,667	\$10,946,126	\$2,071,395	\$2,170,417	\$2,272,446	\$2,377,573	\$2,171,807	\$39,269,661
Original Vs 10.20.22 No Mezz										
EGI	\$0	\$29,759	\$3,154,173	\$91,995	(\$61,284)	(\$63,123)	(\$65,016)	(\$66,967)	(\$68,976)	(\$71,045)
OpEx	\$0	(\$98,597)	(\$848,076)	\$84,455	\$91,279	\$94,018	\$96,838	\$99,743	\$102,736	\$105,818
NOI	\$0	(\$68,838)	\$2,306,097	\$176,450	\$29,995	\$30,895	\$31,822	\$32,777	\$33,760	\$34,773
<b>Project Cost</b>	\$18,439,679	\$13,984,996	\$277,597	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cash Flow from Operations	\$0	\$0	\$658,254	(\$5,293)	(\$171,504)	(\$170,586)	(\$169,639)	(\$168,666)	\$79,754	\$427,177
Cash Flow From Transactions	\$0	\$0	\$6,035,755	(\$9,137,939)	\$0	\$0	\$0	\$0	\$0	(\$7,493,359)
Net Cash Flow	\$0	\$0	\$6,694,009	(\$9,143,232)	(\$171,504)	(\$170,586)	(\$169,639)	(\$168,666)	\$79,754	(\$7,066,182)

Figure 2

Figure 3

Magna Apt Rents		Area Median Income (AMI) Rent Limits			
Unit Type	Rent	65%	70%	75%	80%
1 Bedroom	\$1,425	\$1,330	\$1,433	\$1,535	\$1,638
2 Bedroom	\$1,590	\$1,498	\$1,613	\$1,728	\$1,844
3 Bedroom	\$2,030	\$1,664	\$1,792	\$1,920	\$2,048



If you would like to engage Novogradac & Company LLP to calculate the rent & income limits for your property, please contact Thomas Stagg at [thomas.stagg@novoco.com](mailto:thomas.stagg@novoco.com).

Click on the icons below to view historical charts.

**Program and Location Information**

Affordable Housing Program: Other Federal, State, or Local Program (non-LIHTC)

Year: 2022 (effective 04/18/22)

State: UT

County: Salt Lake County

MSA: Salt Lake City, UT HUD Metro FMR Area

Rent Calculation Based on: AMI

Persons / Bedroom: 1 Person / Bedroom + 1

4-person AMI : \$102,400

National Non-Metropolitan Median Income: \$71,300

**HUD Published Income Limits for 2022 (with no adjustments)**

Display Income Limits  Hide Income Limits

Rent Limits for 2022 (Based on 2022 AMI Income Limits)							
Bedrooms (People)	Charts	60.00%	65.00%	70.00%	75.00%	80.00%	FMR
1 Bedroom (2.0)		1,228	1,330	1,433	1,535	1,638	1,112
2 Bedrooms (3.0)		1,383	1,498	1,613	1,728	1,844	1,327
3 Bedrooms (4.0)		1,536	1,664	1,792	1,920	2,048	1,843

<https://www.novoco.com/resource-centers/affordable-housing-tax-credits/rent-income-limit-calculator>

Figure 4

**From:** Tyson Feaster <[Tyson@lakeunionpartners.com](mailto:Tyson@lakeunionpartners.com)>

**Sent:** Thursday, October 20, 2022 3:45 PM

**To:** Jevon M. Gibb <[JMgibb@slco.org](mailto:JMgibb@slco.org)>; Dale Christiansen <[dcreatestateconsulting@gmail.com](mailto:dcreatestateconsulting@gmail.com)>; Michael Jensen <[jensenmanagementgroup@yahoo.com](mailto:jensenmanagementgroup@yahoo.com)>

**Cc:** [greginslc@gmail.com](mailto:greginslc@gmail.com); Dina Blaes <[DBlaes@slco.org](mailto:DBlaes@slco.org)>; Catherine Kanter <[CKanter@slco.org](mailto:CKanter@slco.org)>; Kersten Swinyard <[KSwinyard@slco.org](mailto:KSwinyard@slco.org)>; Kyle Kite <[kyle@lakeunionpartners.com](mailto:kyle@lakeunionpartners.com)>

**Subject:** RE: NDC Report - Magna Arbor Park

Ok. Based on today's conversation: Revisions as follows:

- Reduction of land cost \$500K to remove retail pad
- Reduction of retail pad improvement of \$350,000
- Increase in 1-BR rent to \$1.95
- Decreased loan amount to \$31,838,000. Because we are at the end of the line on returns, we have received word from bank that they are likely to reduce spread from 2.25% over 7-YR index to 2.10%. Current 7-year is trading today at 4.37 which would put our overall rate at 6.47. While the spread helped the index has increased from 6.36% during the last run. The current debt projection is 31,838,000 based on rate and 1.20x DSC. The only good news is because of lower proceeds interest costs remain consistent the loan fee is reduced slightly.

See following metrics: **In order to try and keep the 13.55% IRR intact we need to increase the RDA request from \$4.8MM to \$5.9MM.**

<b>Sources &amp; Uses (estimate)</b>				
Use of Funds	%	Gross \$	\$/Unit	PGRSF
Land Value	9%	\$5,525,000	\$28,776	\$25
Hard Cost	76%	\$44,757,500	\$233,112	\$203
Tenant Improvements	0%	\$0	\$0	\$0
Soft Cost/Closing Costs	11%	\$6,259,830	\$32,603	\$28
Financing Costs	4%	\$2,218,389	\$11,554	\$10
<b>TOTAL USES</b>	<b>100%</b>	<b>\$58,760,720</b>	<b>\$306,045</b>	<b>\$266</b>
<b>Sources of Funds</b>				
Senior Debt	54%	\$31,838,937	\$165,828	\$144
Arbor Park CDA	0%	\$0	\$0	\$0
Equity	46%	\$26,921,783	\$140,218	\$122
<b>TOTAL SOURCES</b>	<b>100%</b>	<b>\$58,760,720</b>	<b>\$306,045</b>	<b>\$266</b>

<b>RDA Proceeds</b>	<b>IRR</b>		
4,800,000	13.14%		
5,000,000	13.21%		
5,250,000	13.31%		
5,500,000	13.40%		
5,750,000	13.50%		
<b>5,900,000</b>	<b>13.55%</b>		
<b>Date of Proforma</b>	<b>Equity</b>	<b>Inc (Dec)</b>	
Original Submitted	\$ 22,701,928	\$	-
September Update	\$ 22,633,907	\$	(68,021)
<b>October Update</b>	<b>\$ 26,921,783</b>	<b>\$</b>	<b>4,219,855</b>